



MINUTES

Board Members Present: Councilmember Tim Burgess; Robert Harvey; David Stewart; Glen Lee; Lou Walter; Sherry Crawford; Jean Becker

SCERS Staff Present: Cecelia M. Carter; Tony Smith; Ben Kalman Beverly Yapp; Lisa Carns; Deontrae Sherrard

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; John McCoy, Legislative Central Staff; Tom Kirn, Finance and Administration Services; George Emerson; Finance and Administration Services; Patti Kieval, Local 17; John Masterjohn, Retiree; Steve Viney, Retiree.

Councilmember Burgess, Board Chair called the meeting to order at 9 am.

Public Comment: No public comment.

Councilmember Burgess announced he needed to attend the 9:30am City Council meeting. Councilmember Burgess requested the meeting move expeditiously with a brief Executive Session at the end of the meeting.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the November 15, 2012 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

Service	\$10,341,020.92
Beneficiary	\$943,831.28
Disability	\$79,290.73
Pension Payroll – PPE November 30, 2012	<u>\$11,364,142.93</u>

Office Payroll – PPE November 2, 16 and 30, 2012	\$95,406.92
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Vouchers Processed – November 30, 2012	\$889,956.47
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*Expert and Consultant Services – \$125,055.58

*Investment Management Fees – \$615,911.16

*Interdepartmental Charges - \$63,092.60

*Miscellaneous - \$95,897.13

Immediate Withdrawals of Contributions for the month of November 2012:

Member	Department Name	Position
Ampongan, Christopher D	City Light	Info Tech Prof A
Berger, Daniel M	Law	City Attny Assist
Carlson, Malcolm P	Seattle Center	Laborer
Ciampo, Catherine C	Library	Lib Assoc II
Fox, Douglas B	FAS	Plumber
Fujisawa, Kaori	SDOT	Intern
Guffin, Kelly R	City Light	Info Tech Prof A
Harden, Charles B	City Light	Lineworker
Holmes, Cody Alan	SDOT	Tree Trimmer
Johnson, Carl D	Seattle Center	Mtc Laborer
Juarez, Alison A	HSD	Personnel Spec
Kruse, Gail R	Seattle Center	Admissions
Lange, Dayne M	Parks	Rec Attend
LaScala, Brian	SPU	Water Pipe Wkr

Member	Department Name	Position
Littlejohn, Marilyn	Exec Office	Executive
McClure, Enjolia W	SPU	Util Acct Rep
Moe, Jason Allen	SPU	Util Acct Rep II
Newlin, Ken J	Police	Park Enf Offcr
Parisi, Marla I	City Light	Admin Spec I
Shaffer III, Robert B	City Light	Lineworker
Trujillo, Ernie T	Seattle Center	Admissions
Tsang, David Yiu Nam	HSD	Counslnr
Valdez, Vanessa J	Parks	Rec Attend
Vance, Tyler M	SDOT	Maint Laborer
Yancy, Cirt O	SPU	Civil Eng Spec
Zelenka, Kelly M	HSD	Grants & Contracts

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

Withdrawals for a total of: \$602,308.84

Ratification of Service Retirements for the month of November

Retiree	RetireDt	Years	Days	Age	DeptName	Position
Abston,Michael A	10/17/2012	12	278	63	Vested	Vested
Brotherton,Helen J	10/16/2012	14	311	60	Police	Police Comms Dispatcher I
Bryant,Ann J	10/30/2012	18	1	57	Vested	Vested
Bynum,Michael J	10/12/2012	10	125	62	Vested	Vested
Cook,Carroll L	11/7/2012	20	35	63	Library	Delivery Driver
De Bernal,Ofelia S	11/2/2012	21	226	60	Parks	Pool Maint Wkr
Ducey,Anne M	11/7/2012	24	130	57	City Light	Marketing Dev Coord
Eyre,Andrea M	10/12/2012	27	144	54	Parks	Facility Maint Supv
Fulton,John D	10/16/2012	26	186	66	City Light	Manager 3
Gallegos,B Christina	10/20/2012	26	187	52	Parks	Naturalist
Grant,Judith A	11/1/2012	1	278	58	Vested	Portability
Hobson,Marleen	11/7/2012	26	213	62	Police	Police Comm Dispatcher, Chief
Johnson,Lonnie L	11/3/2012	40	129	59	City Light	Generation Supv-BU
Kjemhus,Kay L	11/2/2012	8	211	69	City Light	Admin Spec II
Lea,Robinn D	11/7/2012	27	347	59	SPU	Util Acct Rep II
Lux,Marleen T	11/7/2012	32	72	61	Police	Mgmt Sys Anlyst
Maher,Daniel J	11/7/2012	14	140	65	City Light	Electl Svc Rep,Sr
Polidoro,Elaine M	10/25/2012	11	230	59	Vested	Vested
Rossmann,Mary J	11/6/2012	26	309	56	Parks	Maint Laborer
Sam,Deborah J	11/7/2012	30	217	52	SPU	Wtr Pipe Wkr Sr
Sato,Harry	11/7/2012	26	232	67	City Light	Mgmt Sys Anlyst,Sr
She,Nian	10/18/2012	17	237	55	SPU	Civil Engr Spec Sr
Tipton,Jack W	11/7/2012	23	316	62	SPU	Civil Engr Spec
Wessenberg,Nancy S	10/13/2012	43	144	68	K.C. Health	PHN

For the month of November: 29 new Members entered the System, 28 terminations, 24 Members retired in the System, 9 Members removed (\$9,955.65), 2 pop-up from D/E to Straight Benefit, no Option D/E continuation, 2 Option F, 1 over 60% benefit.

Motion:	<p>Upon motion by Tim Burgess, seconded by Bob Harvey, the Retirement Board approved the below items contained in the Administrative Consent Agenda.</p> <ul style="list-style-type: none"> •Minutes of the November 15, 2012, Board Meeting •Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals •Ratification of Service Retirements for the month of November 2012
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Investment Consent Agenda

The Investment Committee met on November 28, 2012 at 12pm at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Lou Walter, Chair; Bob Harvey, Glen Lee; David Stewart. Other Board members present: Jean Becker. Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith; Ben Kalman; Lisa Carns; Carlton Seu, Seattle City Attorney's Office; Others present: Neil Rue, PCA; David Sancewich, PCA; Mike Moy, PCA; Christy Fields, PCA; Tad Ferguson, PCA; Andrew Bratt, PCA; George Emerson, FAS; Steve Viney, Retiree; Zane Montoya, Personnel Department; Jessica Wang, FAS.

Cecelia Carter, SCERS Executive Director reported the J.P. Morgan contract was executed on November 29, 2012. \$125 million was funded as of December 3, 2012.

Ms. Carter also announced there was some confusion at the Investment Committee on November 28th surrounding the presentations from PIMCO and Russell Investments. The presentations were for educational purposes in an effort to be pro-active given the current economic events. Efforts are being made to protect the portfolio against future economic downturns.

Tony Smith and Ben Kalman with SCERS staff provided the Board with an overview of the November 28, 2012 Investment Committee meeting outlined below.

Tony Smith, SCERS Staff reported on the Q3 2012 Performance Report. The SCERS Total Portfolio returned 4.8% for the quarter, outpacing the benchmark by 30 basis points, mainly due to security selection within U.S. Fixed Income and Private Equity. During the 1-year period, the Total Plan returned 16.2%, trailing the benchmark, which returned 16.7%. Positive security selection within U.S. Fixed Income was largely offset by an overweight to U.S. Equity and an underweight to Private Equity. Further, the Total Plan has kept pace with the benchmark over the 3-year period, although it continues to trail over the 5-year and 10-year periods. Correspondingly, the Total Plan modestly outperformed the Median Public Fund peer group during the quarter by 10 basis points.

Tony Smith, SCERS Staff reported on the Q2 2012 Real Estate Portfolio. At the November 28, 2012 Investment Committee meeting Christy Fields from PCA presented SCERS Real Estate asset allocation performance report as of June 30, 2012. During the quarter, the Portfolio increased in value by \$3.9 million, primarily due to retained income and unrealized appreciation from the JP Morgan Tactical Allocation Program and JP Morgan Strategic Property Fund. SCERS' Core Portfolio returned 2.7% for the quarter, outpacing the benchmark, the NFI-ODCE by 10 basis points. Over longer time periods, the Core Portfolio continues to hold up well relative to the NFI-ODCE.

Tony Smith, SCERS Staff reported that Mike Moy and Tad Ferguson with PCA presented the Private Equity Implementation and Investment Plan for 2013, which encompassed a high level analysis of the historical cash flow characteristics at the operating account level for SCERS. SCERS' Private Equity allocation is currently below its target allocation, and due to the maturity of the underlying programs, the program is largely well in harvest mode. The allocation is expected to continue to decline unless additional commitments are made to achieve the long-term target allocation of 6% to private equity by 2013. PCA recommends targeting \$25-30 million of commitments across a variety of strategies, with a key component being a review of SCERS' liquidity management at least annually and prior to any new or renewal commitments to private equity managers. Mr. Glen Lee wanted to clarify for the record that the Investment Committee requested PCA and Staff to forecast the cash needs on a short-term basis. PCA or SCERS staff did not achieve request. There was dialogue between Board members. Mr. Bob Harvey questioned how the Board could track the requests that are made. Ms. Carter recommended such requests can be reflected in the "Old Business" section of the agenda.

Tony Smith followed-up on the Developed Markets and Manager Concentration. Following the October 2012 Active International Developed Markets Manager presentations, PIMCO was selected for a portion of the mandate up to the permissible manager concentration limit established within SCERS' Statement of Investment Policies and Procedures. RAFI was selected as a potential candidate to fill in the remaining portion, pending PCA and Staff's research. Upon further discussion and analysis, Staff recommended that SCERS not breach the defined 15% manager concentration. As a result, Staff

recommended that SCERS adopt Option 1, which will apportion approximately 15.5% to PIMCO and 18% to RAFI within the Total Non-US Equity portion of SCERS' Total Portfolio. PCA concurs with Staff's recommendation.

Mr. Lou Walter arrived at 9:20am.

Tony Smith reported on the Portfolio Protection Strategy presentations. Following the 2008 financial crisis, there has been an increasing focus on better understanding how to manage downside risk, which refers to the risk of drawing down assets during periods of volatility and stress in the global markets. The consensus is that there is likely to be more volatility in the markets going forward and an increase in frequency of tail events, which are broadly defined as rare events that could have negative impacts on investments. SCERS staff is increasingly researching what tools may be available to better manage downside risk in a cost-effective manner. PIMCO and Russell Investments presented educational material to the Investment Committee covering a range of topics such as overlay programs, utilizing options, and other various approaches. PCA and Staff concur that SCERS should consider developing the appropriate mechanism/facility to take advantage of available risk management tools. Mr. Smith further commented that he recommends it be a priority to protect the plan. Mr. Smith further stated the math is not working for SCERS and protecting the current plan assets is critical. Mr. Smith reported SCERS staff have been in contact with the firm Cardano and has asked Cardano to review the plan with Milliman. Cardano accepted the invitation to speak to the Investment Committee at the January 31st meeting. Cardano will present their overall review and findings. There is no cost associated with the review.

The Board questioned why Cardano was selected. Mr. Smith explained Cardano will take a holistic review of the overall plan and they have experience with public pension funds. Cardano's analysis will provide a scenario for the "journey of the plan" whereas Milliman provides projections.

Mr. Smith reported on the Investment Summary for October 2012. As of October 31, 2012, the Total Portfolio had a market value of \$1.9 billion. Following the discussion on Covered Calls, SCERS has repositioned Covered Calls to be a component of the overall Total US Equity Asset Class. With the exception of Private Equity, the portfolio is within its target weights for all asset classes. Staff reported that Parametric was funded at the beginning of November 2012, and the fund received approximately \$2 million in distributions during the month; net of capital calls, the plan received \$1.4 million. As of the report date, the mark-to-market funded ratio for the plan stood at 63.59%.

Motion: Upon motion by Glen Lee, seconded by Lou Walter, the Retirement Board approved the Investment Consent Agenda

Motion: Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board approves the recommendation of the Investment Committee to select Pacific Investment Management Company (PIMCO) and Research Affiliates for the Non-US Developed Markets mandate.

Executive Director Report:

RFP Audit Services – Update

Cecelia Carter, SCERS Executive Director completed the reference checks for the firm Clifton Larson Allen. Staff recommends the Board select Clifton Larson Allen as the Audit Service Consultant. The Board members asked questions on the RFP process. Ms. Carter outlined the RFP process. The Board asked the Governance Committee and the SCERS Executive Director to review the RFP process and develop a policy to ensure efficiency for the SCERS Board of Administration.

Motion: Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board approved the selection of Clifton Larson Allen as the Audit Service Consultant for the time period January 1, 2013 – December 31, 2015.

The RFP IT Consulting Services agenda item was tabled.

Ms. Carter reviewed with the Board the memorandum outlining the 2013 Credit Interest implementation. The declared rate of interest for calendar year 2013 is 3.33%.

Ms. Carter reported that City Council passed Council Bill 117617 approving the 2013 Furlough Program for selected City Departments. Included in the Furlough Program is that employees have an option to waive the furlough days if they sign up for the intent to retire by 2015. The use of furloughs has an impact on the Retirement System. Ms. Carter suggested she may submit modified language to be included on the Ordinance as an amendment. Mr. Harvey questioned the procedure in that why the SCERS Executive Director or SCERS Board was not notified of this action and for the future could a policy be

implemented so that the Executive Director is notified of matters relating to SCERS. There was discussion among Board members, staff and the audience relating to the Budget procedures. John McCoy (Central Staff) from the audience conveyed the Budget Office normally identifies the departments impacted. Ms. Carter may provide modified language for the Board's review at the January meeting.

Ms. Carter announced that PCA's contract expires June 30, 2013. Ms. Carter reported she would like to issue the RFP in January.

Ms. Carter announced the City Auditor will be onsite January 7 – January 31, 2013 as part of their on-going audit.

Ms. Carter reported SCERS received a holiday gift from a money manager who submitted a proposal in the Real Estate RFP. The gift was returned.

New Business

Ms. Becker (Governance Committee Chair) reported the Governance Committee met for the first time on December 4, 2012 from 10am – 12pm at the SCERS office. Present at the meeting were Jean Becker, Chair; Robert Harvey, Sherri Crawford and Cecelia Carter. Ms. Becker reported the purpose of the Governance Committee is to review SCERS governance issues, its rules and by-laws and the roles and responsibilities. The outlined priorities are the roles and responsibilities of the Board Chair, SCERS Executive Director and the Treasurer. The next meeting will be scheduled for the first week of January.

Status of Benefit Enhancements:

Information: The **estimated** current funding level of the Retirement Fund is 63.59% as of October 2012 on a marked-to-market basis. The above amount is an estimate calculated each month by the Retirement Office staff. As provided by Ordinance 120685, changes to the Floor COLA will occur once the funding level has reached at least 100% and has been confirmed by the Board after commissioning an actuarial valuation.

Councilmember Burgess announced at 9:53am that the Board would go into executive session to discuss a litigation matter and a personnel matter until 10:30am.

The Board was back in session at 10:35am.

Litigation Matter

<u>Motion:</u>	Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board approved and accepted the recommendation of the law department to hire Appelby's to provide an authorized representative, registered agent, plus corporate secretary and two directors for the Epsilon Fund II for 2013. The approximate cost will be \$11,000.
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Personnel Matter

<u>Motion:</u>	Upon motion by Tim Burgess seconded by Glen Lee the Retirement Board shall enter into a memorandum of understanding with the Director of Finance and the Chief Technology Officer for the City of Seattle to provide personnel to perform services solely in an administrative capacity at the Seattle City Employees' Retirement System in the fields of accounting, finance, and information technology on an interim basis. The personnel in these roles shall report directly to the at large Board Member, Mr. Bob Harvey. Mr. Harvey shall consult and supervise said personnel in conjunction with the Director of Finance and the Chief Technology Officer. Board Member, Mr. Bob Harvey recused himself from the vote.
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Adjournment:

<u>Motion:</u>	Upon motion of Lou Walter, seconded by Bob Harvey the Retirement Board voted to adjourn the meeting at 10:37am.
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David L. Stewart, Secretary